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# pipeline Deal: Intrigue in High Places

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Special to The New York Times

WASHINGTON, Jan. 30 — Shortly after Rear Adm. Frank B. Rowen became national security adviser in November 1985, one of his predecessors in the job offered him sober advice about a billion dollar Iraqi oil pipeline project that was supported by the National Security Council and by President Reagan.

Sam P. Clark, the Administration's second national security adviser and a close friend of President's, warned Rear Adm. Rowen and his aides, "This project has been a nightmare." Self-interested intermediaries were to manipulate the national security policy of the United States to their advantage, he told them, officials involved with the project recounted.

Rear Adm. Rowen quickly moved to close down the project, which had been debated for more than two years at the highest levels of the American, Israeli, Iraqi and Iranian Governments.

## Special Prosecutor Investigating

More than two years later, a special prosecutor investigating Attorney General Edwin Meese 3d has found his diplomatically sensitive investigation on the pipeline project by Mr. Meese, by Israel, by the Central Intelligence Agency, and by E. Robert Wallach, a

close friend of Mr. Meese who had a financial interest in the pipeline.

But the story of the pipeline is more than just a criminal investigation that is complicating Mr. Meese's already deeply troubled tenure. A monthlong review of government documents and interviews with dozens of present and former Administration officials illustrates in this case how the influence of private commercial interests came to permeate foreign policy at the highest levels of the United States Government.

## New Details Uncovered

The New York Times inquiry has uncovered new details about the tangled pipeline deal, including these:

¶ The special prosecutor, James C. McKay, is investigating the relationship between William J. Casey, the late Director of Central Intelligence, and Bruce Rappaport, a Swiss businessman with ties to Israel who was a principal in the project, according to officials. They add that Mr. McKay is also examining how information about Mr. Rappaport contained in Central Intelligence Agency files was not provided to some officials who had questions about him and had asked the C.I.A. for background on him. The agency's highly classified dossier on Mr. Rappaport raised questions about his business dealings and referred to him as a representative of Israel, officials said. But

that information was not provided to another agency that had made an official request through proper channels.

¶ Mr. Wallach and Mr. Rappaport were brought into the pipeline deal, at least in part, because of their ties to officials in Israel and the United States. American officials said Mr. Rappaport was closely aligned with Shimon Peres, then Israel's Prime Minister, while Mr. Wallach, who represented Mr. Rappaport, openly boasted of his ties to Mr. Meese. Soon after the two men became active in the project, each obtained tangible signs of support from Mr. Meese and Mr. Peres.

¶ The objections of other government agencies or officials to the pipeline project were overruled, ignored or bypassed, largely through efforts of the National Security Council, officials said.

Officials familiar with the project, all of whom asked not to be identified, said it gathered momentum in May 1985, the same month that N.S.C. officials began pushing the idea of selling arms to Iran.

The similarities between the Iran affair and the Iraqi pipeline deal are striking, several officials said. In both instances, Robert C. McFarlane, then



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Pipeline was to have connected Al Haditha to Aqaba on the Red Sea.

the national security adviser, was drawn into a deal by middlemen with personal financial stakes.

In addition, American support for the Iraqi project was handled outside normal Government channels, and the small number of officials involved were instructed to keep it secret from their colleagues.

Finally, both the Iran and Iraq deals raise questions about the influence of

Israeli interests on American policy, a question that Mr. McKay is said to be exploring and that is considered highly sensitive.

Until 1985, the Administration's approach was to seek an end to the hostilities in the region and to support neither side in the protracted Iran-Iraq war. Israel, on the other hand, was quietly encouraging continued conflict between Iran and Iraq.

By the fall of 1985, after months of dealing with Israeli representatives, the Administration's approach to the war in the Persian Gulf had shifted to a contradictory policy that appeared to be tantamount to backing both sides at once. Israel apparently was doing much the same.

Even as the Administration set in motion its first arms sales to Iran with the assistance of Israel, its official justification for backing the pipeline was that increased sales of crude oil by Iraq would help Iraq finance the weapons needed for the war against Iran, according to officials.

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## 'It Smacked of a Novel' Picked Up at an Airport

There was another similarity between the Iran arms dealings and the pipeline project. To some Washington officials involved in the complex negotiations, the leading players seemed like characters in a movie. "To us," one Administration official recalled, "it smacked of a novel you'd pick up at an airport."

The key actors included Mr. Rappaport, who was born in Palestine before it became Israel. He later moved to Geneva and became an international businessman reputed to have earned more than a billion dollars through dealings in energy, shipping and finance. One American official said Mr. Rappaport often boasted of his ties to the Israeli Government.

There were also rumors, which were persistent enough to have been the subject of questions by the special prosecutor, that Mr. Rappaport had ties with the Mossad, the Israeli intelligence agency, according to officials.

Mr. Rappaport declined to be interviewed, despite repeated requests by phone and telex. His attorneys said he had a policy of not talking to reporters.

Then there was E. Robert Wallach, a successful San Francisco personal injury lawyer who had been Mr. Meese's lawyer. Mr. Wallach cut an unusual figure in Washington. His sartorial trademark was a large carnation. He signed his name in all lower-case letters in the style of the poet e.e. cummings.

The project's roots go back to 1983, long before Mr. Wallach and Mr. Rappaport came on the scene. In that year, Iraq was faced with the shutdown of an oil pipeline by Syria and was exploring other routes to export its oil. Among the options were new pipelines in Turkey and Saudi Arabia and through Jordan to the port at the Gulf of Aqaba.

## The Bechtel Group Showed an Interest

The prospect of building the huge pipelines attracted the Bechtel Group Inc., the giant engineering services company that had done considerable business in the Middle East. By 1984, Bechtel obtained a preliminary financing commitment from the Export-Import Bank, a Government agency.

Bechtel realized immediately that the main hurdle facing the pipeline project would be insurance. Iraq and Jordan, through which the pipeline would pass, were demanding guarantees that the interest payments would be met if Israel or anyone else attacked and destroyed the pipeline.

That request prompted Bechtel to explore the idea of insurance with the Overseas Private Investment Corporation, a United States Government agency that insures projects against political risks.

Bechtel officials also concluded they would need to make contact with the Israeli Government, and so in February of 1985, they reached a tentative agreement to form a partnership with Mr. Rappaport. Tom Flynn, a spokesman for Bechtel, said Mr. Rappaport had been referred by Japanese business interests, adding, "We were led to believe he had some experience in Israel."

Within two weeks, Mr. Rappaport delivered. Mr. Flynn said he produced a letter from Shimon Peres, who was then the Israeli Prime Minister, that promised Israel would not interfere with the pipeline.

"That was the signal, Rappaport's way of showing our folks he could be useful," the Bechtel spokesman said.

But the letter from Mr. Peres was not sufficient to assuage Iraqi fears. Baghdad wanted something more tangible, namely money.

Meanwhile, officials at the Overseas Private Investment Corporation were unenthusiastic about the deal, in part because they saw no evidence of backing at the top levels of the Administration. Although some at the State Department supported the deal, the voice of Secretary of State George P. Shultz, former vice chairman of Bechtel, was notably silent. Mr. Shultz had removed himself from involvement in any Bechtel project.

## 'We've Got a Swiss Guy With a Bizarre Scheme'

In May of 1985, an Overseas Investment Corporation official told an attorney for Mr. Rappaport that he wanted some evidence of senior Government support.

The official said he told Mr. Rappaport's lawyer: "We've got a Swiss guy with a bizarre scheme. I haven't heard from anybody in the Government that we should be doing something like this."

When Mr. Wallach got involved in the project soon afterward, however, the question was answered. According to one source involved in the deal, Mr. Wallach was brought in because of his ties to Mr. Meese, not for legal tal-

ent.

Like Mr. Rappaport, Mr. Wallach quickly delivered. With the help of a phone call by Mr. Meese, Mr. Wallach arranged a meeting with Mr. McFarlane. The session took place at the White House in June. Present were Mr. McFarlane, Mr. Rappaport and Mr. Wallach.

Three days later, on June 27, Mr. McFarlane convened a White House meeting with top officials of the Overseas Investment Corporation, and he told them the project was a matter of national security interest. The insurance corporation is one of Washington's more obscure agencies and normally deals with the State Department. Officials there viewed the involvement of the National Security Council as highly unusual, and impressive.

Sometime later, Mr. Rappaport held a small party honoring Mr. Casey at the luxurious Fourways Washington Restaurant. The evening was apparently part of an effort to persuade officials that the deal had high-level support. The guests included officials involved in the deal, and the conversations centered around the pipeline and Mr. Rappaport's open display of his ties to Mr. Casey, according to one guest.

Officials said the Overseas Investment Corporation's questions about the deal were numerous, including the amount of insurance required, which was nearly \$400 million, the lack of diplomatic agreements on insurance, and the unusual demands being made by Iraq.

But officials said those concerns were eased by the insistence of the National Security Council and the apparent endorsement of Mr. Casey. At some point, even President Reagan gave his support to it, though it is not known precisely when.

## Questions Are Raised About Rappaport

By mid-summer, however, the Overseas Investment Corporation became more concerned about the background of Mr. Rappaport. The agency's interest was piqued when a major financial institution involved in the deal said it would not work with Mr. Rappaport.

This prompted one agency official to take his concerns about Mr. Rappaport to a National Security Council official — not Mr. McFarlane — who replied that the White House was vouching for Mr. Rappaport, an official said. Still not convinced, the agency's officials asked the C.I.A. to give them a background report on Mr. Rappaport.

The C.I.A. responded by sending a two-page report, classified "secret," that contained information almost entirely available from newspaper clippings or public filings about Mr. Rappaport's successful suit in the 1970's to recover money from Pertamina, the state-owned Indonesian oil company, officials said. It disclosed little about Mr. Rappaport.

Unbeknownst to officials of the Overseas Investment Corporation, the C.I.A. knew more about Mr. Rappaport. Mr. McKay has obtained a C.I.A. document about Mr. Rappaport that was put together in connection with the National Security Council's efforts on behalf of the project, according to officials.

One official familiar with its contents said it included information about questionable business dealings by Mr. Rappaport, and also cited the role he had played in representing Israeli interests. Though that information caused concern among some participants in the deal, it apparently was never passed on to Mr. McFarlane or to Overseas Investment Corporation, officials added.

Throughout the summer, Mr. Rappaport and Mr. Wallach continued to maintain that the Israelis were enthusiastic supporters of the project.

American officials insist that Israel was willing to pledge either American foreign aid money or Israeli government money as insurance that it would not attack the pipeline. They believed that Israel was motivated by the promise of a share in the oil. They said the terminal in the Gulf of Aqaba would be controlled by Mr. Rappaport, who had touted himself as the Israelis' man in the deal.

Another possible reason for Israel's acquiescence was Mr. Peres's interest in promoting a Middle East peace agreement with King Hussein of Jordan and a desire to send a strong signal to Jordan of Israel's good will. Later, in fact, Mr. Peres began to promote the idea of a Middle East "Marshall Plan" by which all countries in the region would be aided economically.

Another possible explanation for the Israeli support is contained in a memo that Mr. Wallach sent to Mr. Meese. It

said that part of the plan for the pipeline project included payments to the Israeli Labor Party, headed by Mr. Peres. Spokesmen for the Israeli Government — in which Mr. Peres is now Foreign Minister — have denied that any such payment was accepted or offered.

## By October 1985, Problems Emerge

By October 1985, it was clear the project was running into problems. Iraqi officials told a visiting American delegation that they had serious reservations about the plan. When an official of the Overseas Investment Corporation confronted the National Security Council with the negative reports emanating from Baghdad, he said he was told: "National security is our business. You mind yours."

Mr. Wallach, meanwhile, had traveled to Israel to meet with Mr. Peres. He told an associate that Mr. Meese had authorized his trip. Mr. Peres also wrote a letter to Mr. Meese, indicating that Israel backed the project.

The issue of Israel's role in the project, and the Overseas Investment Corporation's objections became critical in October. The agency's general counsel, Ralph Shanks, sent a memo to Mr. Meese that sought a legal opinion on several questions about the assignment of Israeli aid to secure the proposal. That document was a classic ex-

ample of Washington gamesmanship, according to officials who have seen it.

"We were trying to abort the deal," one official recalled. "Going to Justice was part of that strategy."

Supporters of the project, including Mr. Wallach, steered the memo around the normal channels so that Mr. Meese quickly received an opinion from a Justice Department lawyer whom Mr. Wallach had helped hire that suggested ways in which the legal obstacles could be surmounted, according to documents and Justice Department officials. Mr. Meese, who was already playing a highly unusual role in foreign affairs, supported these maneuverings, according to former Justice officials.

But opponents of the project, including Mr. Shanks, who had previously worked in the same Justice office, forced the memo into official channels, where it received a totally negative opinion from department lawyers, according to former officials. Such a financing plan was not legally possible, the Office of Legal Counsel concluded.

The deal, however, was not yet dead. Administration officials continued until the end of 1985 to try to come up with creative solutions to the insurance problem. But Mr. McFarlane resigned from his post as national security adviser in early December. Then Admiral Poindexter, who had approved the arms sales to Iran, listened to what Mr. Clark, the former security adviser, had to say and shut down the project.